

**BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2017-292-WS**

Application of Carolina Water Service,
Incorporated for Approval of an Increase in
Its Rates for Water and Sewer Services

**REHEARING
REBUTTAL TESTIMONY
OF ROBERT M. HUNTER**

1 **Q. PLEASE STATE YOUR NAME, OCCUPATION AND BUSINESS ADDRESS.**

2 **A.** My name is Robert M. Hunter. I am the Financial Planning and Analysis Manager for
3 Carolina Water Service, Inc. ("CWS" or "Company"). My business address is 150 Foster Brothers
4 Drive, West Columbia, SC 29172.

5 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

6 **A.** The purpose of my testimony is to respond to testimony of witnesses for the Office of
7 Regulatory Staff ("ORS") about the calculation of rates for our customers in Water Service
8 Territory 1, Water Service Territory 2 and the unified Sewer Service Territory, and the
9 amortization period of CWS' recovery of legal expenses awarded by the Commission.

10 **Q. WITNESS HIPP TESTIFIED THAT THE ALLOCATION OF THE REVENUE**
11 **REQUIREMENT IN CWS' PROPOSED ORDER WAS DIFFERENT FROM THE**
12 **ALLOCATION IN THE COMPANY'S APPLICATION. IS MS. HIPP CORRECT?**

13 **A.** No, she is not. The final percentage of total revenue requirement in each service territory
14 changed as the result of adjustments to the cost of service arising from the ORS audit, but the
15 allocation method used to calculate rates remained the same.

1 **Q. PLEASE EXPLAIN HOW CWS ALLOCATED ITS REVENUE REQUIREMENT**
2 **BETWEEN ITS TWO CUSTOMER SERVICE TERRITORIES.**

3 A. CWS allocated revenue requirement to each service territory based on the unique cost of
4 service for that service territory. Each set of rates was calculated using the financial statements
5 created for each service territory to establish the cost of service together with the revenue required
6 to earn a 10.50% ROE. For example, in Water Service Territory 1, we calculated the ROE using
7 the Income Statement and Rate Base for costs specific to that service territory. Next, we calculated
8 the percentage increase needed to be applied to the rates in Water Service Territory 1 to produce
9 revenues sufficient to earn 10.50% return on equity.

10 **Q. DID CWS INITIALLY REQUEST AN INCREASE IN THE BASIC FACILITIES**
11 **CHARGE FOR BOTH SERVICE TERRITORIES?**

12 A. Yes, the Application requests an increase for all service territories. The Application was
13 filed prior to the audit by ORS and prior to known and measurable adjustments that arose between
14 the time of the Application and the proposed order.

15 **Q. PLEASE EXPLAIN WHY THE RATES DIFFER BETWEEN THOSE**
16 **REQUESTED IN THE APPLICATION AND THOSE PROPOSED BY CWS AFTER THE**
17 **HEARING IN ITS PROPOSED ORDER.**

18 A. The rates in CWS' proposed order are directly correlated to the revenue requirement
19 calculated based on the cost of service for each service territory after adjustments during the audit
20 review by ORS and based upon any other known and measurable adjustments that arose between
21 the time of the Application and the proposed order. For example, in Revised Audit Surrebuttal
22 Exhibit ZJP-5, adjustment 25c to adjust pro-forma property taxes decreases property taxes in

1 Water Service Territory 1 by over \$400k and increases the unified Sewer Service Territory by over
2 \$400k. During the audit process ORS identified property tax bills that in the Application had been
3 fully allocated to Water Service Territory 1 but upon further review should have been allocated
4 between Water Service Territory 1 and the unified Sewer Service Territory. CWS agreed with
5 ORS' adjustment and adjusted the cost of service for each service territory accordingly. As an
6 additional example, because the Application was filed prior to the Tax Cut and Jobs Act,
7 adjustments to rates resulting from the Tax Cuts and Jobs Act were not included in the Application.
8 Therefore, the rates were adjusted for this impact in the proposed order. The rates in CWS'
9 proposed order reflected the changes in cost of service such as these examples arising during the
10 ORS audit and while the Application was pending.

11 **Q. WAS ORS AWARE OF HOW CWS' REVENUE REQUIREMENT WAS**
12 **ALLOCATED?**

13 **A.** Yes. In response to ORS Second Audit Information Request 2.31 and 2.32 CWS provided
14 the file "AIR 2.31 & 2.32 - Comparison of Application to Order.xlsx" which details the changes
15 to Schedule B from the Application and the proposed order that caused the change in revenue
16 requirement and rates for each service territory. The file provided to the ORS contains the adjusted
17 revenue requirements based on ORS' adjustments with which CWS agreed and items under
18 reconsideration. As stated in my rehearing direct testimony, based on the adjusted revenue
19 requirement, a percentage increase is applied to rates in each service territory to produce revenues
20 earning 10.50% return on equity.

21 **Q. HAVE YOU HAD AN OPPORTUNITY TO REVIEW HOW THE ORS**
22 **ALLOCATED REVENUE BETWEEN CWS' TWO SERVICE TERRITORIES?**

1 A. Yes. Based on the testimony of ORS Witness Dawn Hipp, the rates in ORS' proposed
2 order were derived by applying the percentages of total revenue requirement allocated to each
3 service territory from CWS' Application to the adjusted revenue requirement in ORS' proposed
4 order. In doing this ORS' proposed rates do not account for the changes in cost of service to the
5 service territories because of the cumulative adjustments made during the ORS audit process prior
6 to the hearing.

7 **Q. WHICH METHOD DO YOU BELIEVE IS BEST?**

8 A. Using ORS' allocation method to apply the same percentage of revenue requirement
9 requested in the Application for each service territory would not adjust the unique cost of service
10 for each service territory. Referring to the property tax example, by using the cost of service
11 allocations from the Application in its proposed order instead of the revenue requirement based on
12 audit adjustments for each service territory, Water Service Territory 1 would be subsidizing
13 property taxes in the unified Sewer Service Territory. In fact, by using the percentage allocation
14 of revenue requirement from the Application in its proposed order, ORS nullifies its own
15 adjustment for property taxes. CWS' cost of service methodology reflects the changes in cost of
16 service between the service territories arising during the ORS audit and while the Application was
17 pending together with the revenue requirement necessary to earn the allowed 10.50% return on
18 equity in that service territory. CWS' methodology results in rates that are just and reasonable.

19 **Q. CAN YOU EXPLAIN HOW CWS' ALLOCATION CALCULATION RESULTED**
20 **IN A REDUCTION IN THE BASIC FACILITIES CHARGE FOR CUSTOMERS IN**
21 **SERVICE TERRITORY 1?**

22 A. CWS allocated revenue requirement to Service Territory 1 based on the unique cost of
23 service for that service territory calculated using the financial statements for Water Service

1 Territory 1. The reduction in Base Facilities Charge is a result of adjustments made by the ORS
2 with which CWS agreed and which were incorporated in the financial statement in its proposed
3 order. Primary examples of adjustments made specifically to Water Service Territory 1 by ORS in
4 Revised Audit Surrebuttal Exhibit ZJP-5 that reduce the revenue requirement for this customer
5 class, and thus reduce rates in Water Service Territory 1, include:

6 - (1) Service Revenues – Water: to adjust water service revenues to reflect test year
7 customer billings ORS proposed an increase in Test Year revenues in Water Service Territory 1
8 by \$346,907. CWS has agreed to this adjustment.

9 - (25c) Taxes Other Than Income – to adjust pro-forma property taxes ORS proposed a
10 decrease in Test Year property taxes in Water Service Territory 1 by \$404,591. CWS has agreed
11 to this adjustment.

12 **Q. DID YOU PROVIDE AN UPDATED RATE SCHEDULE AT OR BEFORE THE**
13 **HEARING?**

14 **A.** No. Typically in contested cases, issues pertaining to revenue, adjustments and cost of
15 service allocations are disputed between the parties at trial, and at that stage of the litigation
16 proposed rate estimates would prove to be unreliable. Consequently, neither party submitted
17 estimates for proposed rates at the hearing. Mr. Schellinger only provided the Commission with
18 those rates during the hearing in response to a question from Commissioner Elam. Tr. pp. 774-
19 775. Even so, Mr. Schellinger only had estimates and warned Commissioner Elam that his
20 estimate did not take into account updated purchased water amortization or updated rate case
21 expenses. Tr. p. 773: l. 19-23.

22 **Q. SHOULD THE COMMISSION CHANGE THE ALLOCATION OF REVENUE IN**
23 **THE RATES ADOPTED IN ORDER NO. 2018-345(A)?**

1 A. No. The allocation proposed by the Company is the most equitable, because it assigns the
2 adopted accounting adjustments to their corresponding service territories.

3 **Q. ORS WITNESS HIPPI TESTIFIED THAT THE 66.67 YEAR AMORTIZATION**
4 **LITIGATION WAS NOT REASONABLE AND WAS UNJUSTIFIED. DO YOU AGREE?**

5 A. No, I do not. The lengthy amortization period was established in CWS' last rate case, as a
6 way to mitigate the effect of these litigation expenses on the ratepayer. By forgoing a return on
7 this regulatory asset, the rate base lost amounts to a reduction of approximately \$118,000 per year
8 in revenue that would otherwise be recoverable. The long amortization period favors the ratepayer,
9 not the Company's shareholders.

10 **Q. IF ORS IS RIGHT THAT THE AMORTIZATION PERIOD IS TOO LONG, WHAT**
11 **WOULD THE EFFECT OF A SHORTER AMORTIZATION PERIOD BE?**

12 A. The customer would pay higher rates, and the Company would recover its expenses sooner.